REPORT OF THE AUDIT OF THE WARREN COUNTY SHERIFF

For The Year Ended December 31, 2011



ADAM H. EDELEN AUDITOR OF PUBLIC ACCOUNTS www.auditor.ky.gov

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WARREN COUNTY SHERIFF

For The Year Ended December 31, 2011

The Auditor of Public Accounts has completed the Warren County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Sheriff had total receipts of \$7,343,434, which was a \$27,055 decrease from the prior year. With the exception of reimbursed expenses of \$1,079,447 and fiscal court contributions of \$4,225,000, the Sheriff paid 25% of receipts to the Warren County Fiscal Court in the amount of \$463,536. This was a decrease of \$44,552 from the prior year. In addition, 75% operating fund disbursements increased by \$730,400.

Deposits:

The Sheriff's deposits as of December 31, 2011 were exposed to custodial credit risk as follows:

• Uncollateralized and Uninsured \$505,596

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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ADAM H. EDELEN AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive Honorable Jerry Gaines, Warren County Sheriff Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2011. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated July 24, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.



The Honorable Michael O. Buchanon, Warren County Judge/Executive Honorable Jerry Gaines, Warren County Sheriff Members of the Warren County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Adam H. Edelen

Auditor of Public Accounts

July 24, 2012

WARREN COUNTY JERRY GAINES, SHERIFF STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

| State - Federal Highway Safety Grant \$ 23,374 Fiscal Court - COPS Grant 131,574 Financial Commission For Appalachia HIDTA - Overtime Grant 20,070 \$ 175,018 State Grant Passed Through Fiscal Court 20,069 State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 164,134 State Fees for Services: 428,518 111,853 Sheriff Security Services 111,853 541,525 Circuit Court Clerk: 38,774 541,525 Fines/Fees Collected 38,774 38,924 Court Order Payments 150 38,924 Fiscal Court 4,225,000 4,225,000 County Clerk 84,318 4,318 Commission on Taxes 1,469,933 1,469,933 Fees Collected for Services: 44,072 4,225,000 Accident and Police Reports 15,869 15,869 1,469,933 Fees Collected Deadly Weapon Permits 12,340 1,469,933 1,469,933 Fees Collected Fees 135,046 1,469,933 1,469,933 1,469,933 1,469,933 1,469,933 1,469,933 | Federal Grants Passed Through: | ф | 22.274 | | |
|---|---|----|---------|----|-----------|
| Financial Commission For Appalachia HIDTA - Overtime Grant 20,070 \$ 175,018 State Grant Passed Through Fiscal Court 20,069 State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 164,134 State Fees for Services: 428,518 Sheriff Security Services 111,853 Reimbursement For Juror Meal Expenses 1,154 541,525 Circuit Court Clerk: 38,774 541,525 Fines/Fees Collected 38,774 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 44,072 Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | | \$ | | | |
| State Grant Passed Through Fiscal Court 20,069 State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 164,134 State Fees for Services: 38,718 Sheriff Security Services 111,853 Reimbursement For Juror Meal Expenses 1,154 541,525 Circuit Court Clerk: 38,774 541,525 Fines/Fees Collected 38,774 38,924 Court Order Payments 150 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | | | | \$ | 175.018 |
| State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 164,134 State Fees for Services: | Thanelar Commission For Apparachia THDTA - Overtime Grant | | 20,070 | Ψ | 175,016 |
| State Fees for Services: 428,518 Sheriff Security Services 111,853 Reimbursement For Juror Meal Expenses 1,154 541,525 Circuit Court Clerk: 38,774 38,774 38,924 Court Order Payments 150 38,924 Fiscal Court 4,225,000 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,121 | State Grant Passed Through Fiscal Court | | | | 20,069 |
| State Fees 428,518 Sheriff Security Services 111,853 Reimbursement For Juror Meal Expenses 1,154 541,525 Circuit Court Clerk: Fines/Fees Collected 38,774 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 31,469,933 Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | | | | 164,134 |
| Sheriff Security Services 111,853 1,154 541,525 Circuit Court Clerk: 38,774 38,774 150 38,924 Fines/Fees Collected 38,774 150 38,924 Fiscal Court 4,225,000 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 44,072 Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | State Fees for Services: | | | | |
| Reimbursement For Juror Meal Expenses 1,154 541,525 Circuit Court Clerk: | State Fees | | 428,518 | | |
| Circuit Court Clerk: 38,774 Fines/Fees Collected 38,774 Court Order Payments 150 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 34,072 Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Sheriff Security Services | | 111,853 | | |
| Fines/Fees Collected 38,774 Court Order Payments 150 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 34,072 Action Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Reimbursement For Juror Meal Expenses | | 1,154 | | 541,525 |
| Fines/Fees Collected 38,774 Court Order Payments 150 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 34,072 Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Circuit Court Clerk: | | | | |
| Court Order Payments 150 38,924 Fiscal Court 4,225,000 County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: 3,469,933 Fees Collected for Services: 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | | | 38,774 | | |
| County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: | | | | | 38,924 |
| County Clerk 84,318 Commission on Taxes 1,469,933 Fees Collected for Services: | | | | | |
| Commission on Taxes 1,469,933 Fees Collected for Services: Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Fiscal Court | | | | 4,225,000 |
| Fees Collected for Services: Auto Inspections Accident and Police Reports Serving Papers Carrying Concealed Deadly Weapon Permits 10% Add-On Fees 115,046 Transports 121,340 10% Add-On Fees 135,046 Transports Other Revenues: Fees Collected - Fiscal Court Miscellaneous Expense Reimbursements Miscellaneous Payroll Reimbursements 12,712 | County Clerk | | | | 84,318 |
| Auto Inspections 44,072 Accident and Police Reports 15,869 Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Commission on Taxes | | | | 1,469,933 |
| Accident and Police Reports Serving Papers Carrying Concealed Deadly Weapon Permits 10% Add-On Fees 135,046 Transports 15,869 232,395 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Fees Collected for Services: | | | | |
| Accident and Police Reports Serving Papers Carrying Concealed Deadly Weapon Permits 10% Add-On Fees 135,046 Transports 15,869 232,395 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Auto Inspections | | 44,072 | | |
| Serving Papers 232,395 Carrying Concealed Deadly Weapon Permits 21,340 10% Add-On Fees 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | - | | 15,869 | | |
| 10% Add-On Fees Transports 135,046 Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court Miscellaneous Expense Reimbursements Miscellaneous Payroll Reimbursements 12,712 | | | 232,395 | | |
| Transports 178 448,900 Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Carrying Concealed Deadly Weapon Permits | | 21,340 | | |
| Other Revenues: Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | 10% Add-On Fees | | 135,046 | | |
| Fees Collected - Fiscal Court 57,520 Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Transports | | 178 | | 448,900 |
| Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | Other Revenues: | | | | |
| Miscellaneous Expense Reimbursements 4,253 Miscellaneous Payroll Reimbursements 12,712 | | | 57,520 | | |
| Miscellaneous Payroll Reimbursements 12,712 | | | | | |
| · | | | | | |
| | · · · · · · · · · · · · · · · · · · · | | | | 173,507 |

WARREN COUNTY JERRY GAINES, SHERIFF STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS For The Year Ended December 31, 2011 (Continued)

Revenues (Continued)

| Interest Earned | | _\$_ | 2,106 |
|---|--------------|------|-----------|
| Total Revenues | | | 7,343,434 |
| <u>Expenditures</u> | | | |
| Payments to County: Fees Collected - Fiscal Court | \$ 61,339 | | |
| Other Expenditures: Juror Meal Expenses | 1,154 | | |
| Total Expenditures | | | 62,493 |
| Net Revenues | | | 7,280,941 |
| Payments to State Treasurer: | | | |
| 75% Operating Fund | 6,817,405 | | |
| 25% County Fund | 463,536 | | 7,280,941 |
| Balance Due at Completion of Audit | | \$ | 0 |

WARREN COUNTY

JERRY GAINES, SHERIFF STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES OF THE SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2011

| | 75% Operating | 25% County | |
|---|------------------|---------------|-----------|
| | Fund | Fund | Totals |
| Fund Balance - January 1, 2011 | \$ 0 | \$ 0 | \$ 0 |
| Revenues | | | |
| Fees Paid to State - Operating Funds (75%) | 6,817,405 | | 6,817,405 |
| Fees Paid to State - County Funds (25%) | | 463,536 | 463,536 |
| Total Funds Available | 6,817,405 | 463,536 | 7,280,941 |
| <u>Expenditures</u> | | | |
| Payment To Warren County Government Personnel Services- | | 463,536 | 463,536 |
| Officials Statutory Maximum | 104,829 | | 104,829 |
| Training Incentive | 3,679 | | 3,679 |
| Deputies Salaries | 3,089,016 | | 3,089,016 |
| Overtime Gross | 383,864 | | 383,864 |
| Employee Benefits- | | | |
| Employer's Share Social Security | 253,094 | | 253,094 |
| Employer's Share Retirement | 970,749 | | 970,749 |
| Employer's Share Health Insurance | 341,079 | | 341,079 |
| Employer's Share Life Insurance | 1,158 | | 1,158 |
| Workers' Compensation | 125,331 | | 125,331 |
| Materials and Supplies- | | | |
| Uniforms | 34,219 | | 34,219 |
| Other Charges- | | | |
| Advertising Fee - Property Taxes | 1,233 | | 1,233 |
| Departmental Operating Expense | 104,812 | | 104,812 |
| Postage | 24,549 | | 24,549 |
| Sheriff's Travel | 2,817 | | 2,817 |

WARREN COUNTY
JERRY GAINES, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

| | 75% | | 25% | | | |
|-------------------------------------|----------------|-----------|----------------|---------|--------|-----------|
| | Operating Fund | | County Fund | | | |
| | | | | | Totals | |
| Expenditures (Continued) | | | | | | |
| Other Charges- (Continued) | | | | | | |
| Supplies | \$ | 36,963 | \$ | | \$ | 36,963 |
| Technical Programming Support | | 234,717 | | | | 234,717 |
| Telephone/Fax/Cellular | | 54,920 | | | | 54,920 |
| Training/Certifying Employees | | 23,560 | | | | 23,560 |
| Firearms Certification and Training | | 19,625 | | | | 19,625 |
| Law Enforcement Supplies | | 41,924 | | | | 41,924 |
| Law Enforcement Safety Equipment | | 74,765 | | | | 74,765 |
| Radio Maintenance and Repair | | 29,498 | | | | 29,498 |
| Transport | | 27,799 | | | | 27,799 |
| Auto Expenses- | | | | | | |
| Gasoline | | 214,822 | | | | 214,822 |
| Maintenance and Repairs | | 94,988 | | | | 94,988 |
| Lease Payments | | 5,043 | | | | 5,043 |
| Capital Outlay | | 111,248 | | | | 111,248 |
| Total Expenditures | | 6,410,301 | | 463,536 | | 6,873,837 |
| Fund Balance - December 31, 2011 | \$ | 407,104 | \$ | 0 | \$ | 407,104 |

WARREN COUNTY NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

WARREN COUNTY NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 (Continued)

Note 3. Deposits

The Warren County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Warren County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

• Uncollateralized and Uninsured \$505,596

Note 4. Seized Funds Account

The Warren County Sheriff maintains a Seized Funds Account with funds received as the result of court-ordered payments for drug investigations. These funds are to be used for drug enforcement and drug education. On January 1, 2011, the Seized Funds Account had a beginning balance of \$15,128, receipts of \$17,140, and expenditures of \$3,043. The ending balance at December 31, 2011 was \$29,225.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive The Honorable Jerry Gaines, Warren County Sheriff Members of the Warren County Fiscal Court

> Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Warren County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated July 24, 2012. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Warren County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Sheriff's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under <u>Government Auditing Standards</u>.

This report is intended solely for the information and use of management, the Warren County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Adam H. Edelen

Auditor of Public Accounts

July 24, 2012